BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

FIRST-CLASS MAIL AND PERIODICALS
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE INSTITUTIONAL
WITNESS (SHARON OWENS) TO QUESTIONS 1(a-c) OF GREETING CARD
ASSOCIATION INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS WHITEMAN
(GCA/USPS-T2-1)**
(May 21, 2021)

The United States Postal Service hereby provides the responses of institutional

witness Owens to Questions 1(a-c) of the Greeting Card Association interrogatories to

the United States Postal Service witness Whiteman (GCA/USPS-T2-1), issued on May

14, 2021. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony Alverno
Chief Counsel, Global Business & Service
Development

Jacob D. Howley
Jeffrey A. Rackow

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1101
(202) 268-6687
jeffrey.a.rackow@usps.gov
May 21, 2021

**RESPONSES OF UNITED STATES POSTAL SERVICE INSTITUTIONAL WITNESS
OWENS TO GREETING CARD ASSOCIATION INTERROGATORIES
(REDIRECTED FROM WITNESS WHITEMAN)**

GCA/USPS-T2-1. In footnote 2 on page 5 of your prefiled testimony, you state that the Commission's density-related additional rate authority "is designed to be conservative, rather than providing a complete adjustment in all cases."

(a) Please explain fully what is meant by the statement that the density-related additional rate authority "is designed to be conservative."

(b) Please explain fully what is meant by "complete adjustment."

(c) Please explain fully what states of affairs are included in the phrase "in all cases."

RESPONSE:

a. The Commission has characterized the density rate authority formula as

"conservative" insofar as it uses unweighted volume, without "targeting a net

revenue position . . . or a revenue-weighted measurement of declines." Order

No. 5763, Order Adopting Final Rules for the System of Regulating Rates and

Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Nov. 30,

2020), at 316 & n.400, 354. In other words, the formula does not account for the

sort of exogenous fluctuations within the market-dominant mail mix that have had

a deleterious effect on the revenue base's ability to cover costs. *See* Order No.

5337, Revised Notice of Proposed Rulemaking, PRC Docket No. RM2017-3

(Dec. 5, 2019), at 75-77.

   In addition, instead of choosing one formula and applying it in a result-

neutral fashion, the Commission will run the density formula twice, once based

on total volume and once based on market-dominant volume only, and utilize

whichever result yields less rate authority. Order No. 5763 at 73-74, 98-99, 344

& n.440, 354; Order No. 5337 at 79. Whatever the merits of the Commission's rationale, this approach can fairly be characterized as "conservative."

b. As discussed in response to a. above, the density rate authority formula's use of unweighted volume does not account for changes within the market-dominant mail mix (e.g., when higher-revenue volume declines faster than lower-revenue volume). As a result, it does not completely adjust for the effects of exogenous volume trends on the revenue base's ability to cover the rise in average unit cost.

As for the "lesser of two formulas" approach, the Commission determined that, rather than assuming greater responsibility for covering institutional costs if competitive volumes decline faster than market-dominant volumes, market-dominant mailers should "benefit" from the "protecti[on]" of a more conservative alternative formula in that instance. *See* Order No. 5763 at 78-79. All other things being equal, the result would be that some portion of the density-related rise in overall average unit cost would go uncompensated by either market-dominant or competitive products, hence an incomplete adjustment in that circumstance.

c. See response to b. above.